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COUNTY OF LOS ANGELES  
DEPARTMENT OF HEALTH SERVICES  
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January 14, 2005

TO: Each Supervisor

FROM: Thomas L. Garthwaite, MD  
Director and Chief Medical Officer

**SUBJECT: HEALTH DEPARTMENT BUDGET COMMITTEE OF THE WHOLE**

This is to provide an update on the Department of Health Services' (DHS) fiscal outlook and the status of activities related to the implementation of Scenario III of the Department's system redesign plan.

The attached schedules provide an update of the Department's Fiscal Outlook since the last Health Department Budget Committee of the Whole of on November 30, 2004. The Department's forecast cumulative shortfall through Fiscal Year 2008-09 has increased from \$1.217 billion to \$1.315 billion. This increase in the forecast deficit is due primarily to the projected costs associated with the approval of a new nursing contract, which is estimated to cost \$128.1 million through Fiscal Year 2008-09.

Attachment B details the changes in the Department's fiscal forecast. In addition to the increase noted above, the change in the forecast shortfall can be attributed to a number of changes in the assumptions related to revenue realization and expenses by both the Department and the Chief Administrative Office.

Attachment C has been revised to add a new line (Line 14), which identifies the amount being taken from the Department's designation fund each year to offset the budget shortfall. As is shown on this attachment, in Fiscal Year 2004-05, the Department is estimating it will use \$96.8 million in designation funds to balance its budget.

As the Department has previously noted, there continue to be a number of significant events, delineated in Attachment D, which, if they occur, would substantially alter the fiscal outlook for the worse. If all these items were to transpire, the Department's cumulative shortfall would grow to \$2.468 billion in Fiscal Year 2008-09. Attachment D does not include the potential impact of the Governor's proposed State budget on the Department's fiscal outlook, as sufficient details are not available yet as to the proposed changes in funding.

Each Supervisor  
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As I have reported in the past, federal and state activities related to restructuring the Medicaid and Medi-Cal programs could have a substantial impact on the Department's budget over the next several years. The State budget released by the Governor on January 10 recommends expanding Medi-Cal managed care by phasing in the enrollment of aged and disabled individuals into mandated managed care beginning in January 2007, as is presently the case for pregnant women and children. This population is among the most clinically vulnerable cared for by DHS facilities. Their care is often very expensive and it is unclear whether traditional managed care arrangements will provide an adequate level of care to meet their needs. This may result in these patients accessing DHS facilities outside the managed care plan, thus resulting in reduced reimbursement to the County. Further, those patients who are less transient and able to seek continuous and less costly care may elect to enter the private sector, rather than continue to obtain treatment in DHS facilities.

Because the State budget does not contain the Medi-Cal redesign plan, which had originally been forecast for completion last spring, it is difficult to estimate the impact of these reforms on the Department's budget. DHS is continuing to work actively with the State and as part of a number of coalitions, such as the California Healthcare Association's Disproportionate Share Hospital Task Force and the California Association of Public Hospitals in an attempt to ensure this proposal does not adversely impact the Department.

Finally, the federal budget will be released on February 7 and may contain further proposed funding changes to the Medicaid program that could substantially impact DHS' forecast.

While this increase in the forecast deficit is not unexpected, it does highlight the volatility of the Department's fiscal outlook and the need to reassess the previous strategic plan and the recommendations included for balancing the budget. As I indicated in my last report, the Department will be assessing the impact of both the federal and state budget proposals on its forecast and will be presenting in March further recommendations to reduce the Department's forecast deficit.

I will continue to keep you apprised of these activities. Please let me know if you have any questions.

TLG:ak

Attachments

c: Chief Administrative Officer  
County Counsel  
Executive Officer, Board of Supervisors

DHS Fiscal Outlook

Attachment B is a high level summary of the key developments, and their fiscal impact since our last update through November 4, 2004. Attachment C provides an update through January 11, 2005 of the Department's Fiscal Outlook. The estimated cumulative shortfall through FY 08-09 has increased from \$1,217.7 million to \$1,315.1 million. In the event that any of the following three events transpire, they could cause this estimate to increase, as follows:

|   | <u>\$ In Millions</u> |
|---|-----------------------|
| Estimated Cumulative Year-End Fund Balance/<br>(Shortfall) as of January 11, 2005   | \$(1,315.1)           |
| --Inability to Close/Transfer Rancho and Reduce<br>LAC+USC Beds by 100 on June 30, 2006,<br>or thereafter                 | ( 337.8)              |
| --Inability to Extend CBRC Revenues (or obtain FQHC<br>approval) Beyond Current 1115 Waiver Expiration<br>(June 30, 2005) | ( 262.6)              |
| --Federal Re-basing of SPCP Waiver  | ( <u>552.9</u> )      |
| <u>Potential</u> Estimated Cumulative Year-End Fund<br>Balance/(Shortfall) as of January 11, 2005                         | <u>\$(2,468.4)</u>    |

DHS, along with the CAO, County Counsel and the County's Legislative Strategist, continue to pursue preventing these three events from transpiring.

Of the \$568.7 million designation balance at the end of FY 03-04 [Attachment C, Line 13, Column (2)], the Auditor-Controller (A-C) has placed \$126.9 million in a reserve account for long-term receivables relating to CBRC revenue payments, for CBRC services provided through June 30, 2004, that will likely not be received by June 30, 2005. The expected delay in receiving these payments from the State is due to the time being taken to complete their annual audits of CBRC cost reports. Since the State is paying us for CBRC services based on highly conservative interim rates, pending completion of its CBRC cost report audits, the interim payments are expected to be much less than the final reimbursement made after audit completion. The consequence of placing a portion of the designation balance in the reserve account is that such funds are not available for use in the current fiscal year. Should a similar reserve be required at the end of FY 05-06, this would have the practical effect of decreasing the forecast \$44.8 million designation balance for FY 05-06 [Attachment C, Line 13, Column (4)] to a \$82.1 million shortfall (\$44.8M - \$126.9M).

DHS Fiscal Outlook (cont.)

In attempt to alleviate this situation, we are requesting that the State increase its interim reimbursement rates and/or accelerate the completion of CBRC cost report audits. The State, however, may be reluctant to grant this request, since its cash basis accounting system would force recognition of any accelerated payments as an expense, adding to its budgetary shortfall.

The State continues to work on a Medi-Cal redesign plan, deferring its target completion date a third time, now to February 2005. They also continue to work on a financing proposal with CMS, which may be completed sooner, and still plan to begin saving \$400 million per year Statewide, beginning in FY 05-06. This restructuring, which is yet to be finally defined, is intended to supersede the SPCP Waiver, which was recently extended by CMS through June 2005, and could have a major impact on the Department's Fiscal Outlook. We continue to actively work with the State, its consultant, the California Healthcare Association's DSH Task Force, and the California Association of Public Hospitals to achieve as favorable an outcome to the County as possible from this process.

**COUNTY OF LOS ANGELES - DEPARTMENT OF HEALTH SERVICES**  
**SUMMARY OF CHANGES IN THE DHS FISCAL OUTLOOK**  
**NOVEMBER 4, 2004 THROUGH JANUARY 11, 2005**

|   | Fiscal Year / Columns / \$ In Millions |                       |                       |                       |                        | Total / (8)         |
|---|--|-----------------------|-----------------------|-----------------------|------------------------|---------------------|
|   | 04-05 / (1)                            | 05-06 / (2)           | 06-07 / (3)           | 07-08 / (4)           | 08-09 / (5)            |                     |
| (1) <b>Revised Estimated Cumulative Year-End Fund Balance / (Shortfall) - November 4, 2004</b>  | \$ 512.9                               | \$ 114.2              | \$ (242.0)            | \$ (697.6)            | \$ (1,217.7)           | \$ (1,217.7)        |
| (2) Adjust <u>nursing salaries</u> to reflect assumed salary increases pending Board approval related to the manpower shortage bonus, night shift bonus, seniority bonus, and K/DMC bonus per estimates developed on January 11, 2005.  | (8.4)                                  | (26.4)                | (31.1)                | (31.1)                | (31.1)                 | (128.1)             |
| (3) Adjust <u>employee benefits costs</u> based on revised estimates developed on December 30, 2004. FY 04-05 change is primarily related to increased Megaflex benefit plan costs, which are assumed to be one-time pending further review. FY's 05-06 through 08-09 have been revised to reflect the latest expenditure trends. | (4.5)                                  | 3.4                   | 10.4                  | 24.5                  | 35.6                   | 69.4                |
| (4) Increase <u>HSA Information System costs</u> per estimates received on December 28, 2004.   | -                                      | (7.3)                 | (16.0)                | (7.3)                 | (7.1)                  | (37.7)              |
| (5) Increase <u>Nursing Registry costs</u> per facility estimates received on December 1, 2004.   | (26.9)                                 | -                     | -                     | -                     | -                      | (26.9)              |
| (6) CAO increase in revenue from the Department of Mental Health (DMH) based on agreement to transfer DMH Vehicle License Fee growth to DHS. Estimate received on December 20, 2004.  | -                                      | 5.5                   | 5.5                   | 5.5                   | 5.5                    | 22.0                |
| (7) Adjust <u>interest expense</u> based on estimates provided by the Auditor-Controller received on December 20, 2004.   | -                                      | (4.2)                 | (4.2)                 | (4.2)                 | (4.2)                  | (16.8)              |
| (8) CAO increase in <u>Vehicle License Fee</u> estimates for FY 04-05 through FY 05-06 received on December 20, 2004, extended through FY 08-09.  | 2.3                                    | 3.3                   | 3.3                   | 3.3                   | 3.3                    | 15.5                |
| (9) CAO adjust <u>medical malpractice costs</u> based on estimates received for the FY 05-06 budget request.  | -                                      | 0.8                   | 0.7                   | 0.6                   | 0.5                    | 2.6                 |
| (10) Change in <u>current fiscal year operating forecast</u> received in December 2004 / Other minor ongoing changes to the future years estimates.   | (3.5)                                  | (3.5)                 | 1.9                   | 1.9                   | 5.8                    | 2.6                 |
| (11) Forecast improvement/(reduction) roll-forward  | -                                      | (41.0) <sup>(B)</sup> | (69.4) <sup>(B)</sup> | (98.9) <sup>(B)</sup> | (105.7) <sup>(B)</sup> | -                   |
| (12) <b>Revised <sup>(A)</sup> Estimated Cumulative Year-End Fund Balance / (Shortfall) - January 11, 2005</b>  | <u>\$ 471.9 <sup>(C)</sup></u>         | <u>\$ 44.8</u>        | <u>\$ (340.9)</u>     | <u>\$ (803.3)</u>     | <u>\$ (1,315.1)</u>    | <u>\$ (1,315.1)</u> |

**Notes**

- (A) Assumes Rancho and LAC+USC 100 beds will be closed June 30, 2006, CBRC/FQHC will be extended for each year beyond FY 04-05, and the SPCP Waiver will not be re-based.
- (B) These amounts represent the cumulative change in the forecast from the prior fiscal year. For example, the \$(41.0) million in FY 05-06 is \$471.9 million - \$512.9 million from FY 04-05.
- (C) \$126.9 million of this amount is in a reserved account for long-term receivables related to estimated CBRC payments.

COUNTY OF LOS ANGELES - DEPARTMENT OF HEALTH SERVICES  
**FISCAL OUTLOOK - JANUARY 11, 2005**  
(\$ IN MILLIONS BASED ON FY 04-05 SUPPLEMENTAL BUDGET RESOLUTION)

| Line # | FISCAL YEARS / COLUMNS   |               |               |               |               |               |               |              |
|--------|--|---------------|---------------|---------------|---------------|---------------|---------------|--------------|
|        | 2002-03 / (1)  | 2003-04 / (2) | 2004-05 / (3) | 2005-06 / (4) | 2006-07 / (5) | 2007-08 / (6) | 2008-09 / (7) | TOTAL / (8)  |
| 1.     | Surplus/Deficit as of June 26, 2002  | \$ (326.6)    | \$ (549.2)    | \$ (709.4)    |               |               |               |              |
| 2.     | Scenario III Reductions / Use of Designation Funds   | 267.8         | 327.8         | 357.5         |               |               |               |              |
| 3.     | Original Fiscal Stabilization Revenue Request to help fund Scenario III<br>(Not Budgetary Shortfall by FY) | *(see note)   | *(see note)   |               |               |               |               |              |
| 4.     | Actual / Forecast Update **  | 263.9         | 340.0         | 389.8         | 16.2          | 1.6           | (138.9)       | (612.6)      |
| 5.     | Actual / Forecast Surplus/(Shortfall) (E),(F)  | \$ 263.9      | \$ 281.2      | \$ 168.4      | \$ (335.7)    | \$ (385.7)    | \$ (562.6)    | \$ (1,074.4) |
| 6.     | Beginning Fiscal Year Fund Balance   | 121.0         | 353.1         | 452.8         | 621.2         | 285.5         | -             | -            |
| 7.     | Estimated Cumulative Year-End Fund Balance/(Shortfall) (E),(F)   | \$ 384.9      | \$ 634.3      | \$ 621.2      | \$ 285.5      | \$ (100.2)    | \$ (562.6)    | \$ (1,074.4) |

|     |   |            |           |           |           |            |            |              |              |
|-----|---|------------|-----------|-----------|-----------|------------|------------|--------------|--------------|
| 8.  | Defer Rancho Closure (191 beds) to June 30, 2006                | \$ -       | \$ (49.5) | \$ (53.9) | \$ (59.5) | \$ -       | \$ -       | \$ -         | \$ (162.9)   |
| 9.  | Impact to Beginning Fiscal Year Fund Balance                    | -          | -         | (49.5)    | (103.4)   | (162.9)    | (162.9)    | (162.9)      | N/A          |
| 10. | Revised Estimated Cumulative Year-End Fund Balance/(Shortfall)  | \$ 384.9   | \$ 584.8  | \$ 517.8  | \$ 122.6  | \$ (263.1) | \$ (725.5) | \$ (1,237.3) | \$ (1,237.3) |
| 11. | Defer LAC+USC Medical Center 100 Bed Reduction to June 30, 2006 | \$ -       | \$ (16.1) | \$ (29.8) | \$ (31.9) | \$ -       | \$ -       | \$ -         | \$ (77.8)    |
| 12. | Impact to Beginning Fiscal Year Fund Balance                    | -          | -         | (16.1)    | (45.9)    | (77.8)     | (77.8)     | (77.8)       | N/A          |
| 13. | Revised Estimated Cumulative Year-End Fund Balance/(Shortfall)  | \$ 384.9   | \$ 568.7  | \$ 471.9  | \$ 44.8   | \$ (340.9) | \$ (803.3) | \$ (1,315.1) | \$ (1,315.1) |
| 14. | Use of Designation Funds - Decrease/(Increase)                  | \$ (183.8) | \$ 96.8   | \$ 427.1  | \$ 44.8   | \$ -       | \$ -       | \$ -         |              |

**NOTES TO FISCAL OUTLOOK**

- \* The \$56.8 million of FY 02-03 service cuts are efficiencies already in the FY 02-03 budget base at this point in time and; therefore, doesn't appear on this schedule.
- \*\* Includes revenues previously shown separately (Measure B, SPCP/UPL Waiver, SB 855, and the Federal portion of the Outpatient Lawunit Settlement), the current year's portion of which is already included in the FY 03-04 budget. Up to \$20.0M of the FY 03-04 SPCP/UPL dollars may require DSH flexibility to be retained.
- (A) These amounts are extrapolations from the original 90% Medicaid block grant request used to determine the fiscal stabilization revenues for the June 2002 DHS Strategic Plan, which only extended through FY 05-06.
- (B) Up to \$20.0M of the FY 03-04 SPCP/UPL dollars may require DSH flexibility to be retained.
- (C) Reflects release of the \$96.1M trust fund reserve.
- (D) If CBRC/FCQHC is not available after June 30, 2005, CBRC revenues, net of AB 915 backfill, will decline by \$62.7M, \$64.7M, \$66.6M and \$68.6M for FY's 05-06, 06-07, 07-08 and 08-09, respectively.
- (E) Per State DHS, CMS may "re-base" the Medicaid Upper Payment Limit (UPL) beginning FY 05-06. The impact on County DHS of this potential action is estimated to result in reductions of Medicaid revenues from FY 02-03 could be as high as \$198.0M. There is also a non-hospital clinic UPL, which the State has yet to compute, that could further reduce County DHS' Medicaid revenues. Further, the full realization of the Scenario III savings, future State and Federal Budgets, accelerating healthcare inflation, and potential future Medicaid reform create significant uncertainty regarding the Department's Fiscal Outlook.
- (F) These amounts are potentially improved by the managed care supplement proposal currently being worked on with the State and Federal governments.
- (C) Reflects a beginning fund balance of \$366.9M less the \$245.9M fund balance included in the FY 02-03 Supplemental Budget Resolution.
- (H) Reflects a beginning fund balance of \$384.9M less the \$31.8M fund balance included in the FY 03-04 Supplemental Budget Resolution.
- (I) These estimates do not take into account the opening of the LAC+USC replacement facility in July 2007. Per LAC+USC, current financial projections for the new LAC+USC will not be available until January 2005.
- (J) \$126.9 million of this amount is in a reserved account for long-term receivables related to estimated CBRC payments.
- (K) Reflects a beginning fund balance of \$568.7M less the \$115.9M fund balance included in the FY 04-05 Supplemental Budget Resolution.
- (L) Reflects an "unidentified budget surplus" of \$80.0M for FY 04-05 and \$100.0M for FY's 05-06 through 08-09 added by the CAO.
- (M) The forecast annual operating shortfalls for FY's 07-08 and 08-09 are \$462.4M and \$511.8M, respectively.

COUNTY OF LOS ANGELES - DEPARTMENT OF HEALTH SERVICES  
**FISCAL OUTLOOK - JANUARY 11, 2005**  
**POTENTIAL IMPACT OF FUTURE ADVERSE ITEMS**  
(\$ IN MILLIONS BASED ON FY 04-05 SUPPLEMENTAL BUDGET RESOLUTION)

**POTENTIAL IMPACT OF FUTURE ADVERSE ITEMS:**

| Line #   | FISCAL YEARS / COLUMNS |                 |                 |                   |                   |                     |                     | TOTAL / (8)         |
|--|------------------------|-----------------|-----------------|-------------------|-------------------|---------------------|---------------------|---------------------|
|  | 2002-03 / (1)          | 2003-04 / (2)   | 2004-05 / (3)   | 2005-06 / (4)     | 2006-07 / (5)     | 2007-08 / (6)       | 2008-09 / (7)       |                     |
| 15. <del>Revised</del> Estimated Cumulative Year-End Fund Balance/(Shortfall)  | \$ 384.9               | \$ 568.7        | \$ 471.9        | \$ 44.8           | \$ (340.9)        | \$ (803.3)          | \$ (1,315.1)        | \$ (1,315.1)        |
| 16. Inability to Close/Transfer Rancho and Reduce LAC+USC Beds<br>by 100 on June 30, 2006, or thereafter                           | \$ -                   | \$ -            | \$ -            | \$ -              | \$ (103.5)        | \$ (113.4)          | \$ (120.9)          | \$ (337.8)          |
| 17. Inability to Extend CBRC Revenues (or obtain FBC approval) Beyond<br>Current 1115 <del>W</del> ver Expiration on June 30, 2005 | -                      | -               | -               | (62.7)            | (64.7)            | (66.6)              | (68.6)              | (262.6)             |
| 18. Federal Re-basing"of SPCP <del>W</del> ver   | -                      | -               | -               | (97.6)            | (124.9)           | (152.1)             | (178.3)             | (552.9)             |
| 19. Medi-Cal Redesign  | -                      | -               | ?               | ?                 | ?                 | ?                   | ?                   | ?                   |
| 20. Subtotal   | \$ -                   | \$ -            | \$ -            | \$ (160.30)       | \$ (293.10)       | \$ (332.10)         | \$ (367.80)         | \$ (1,153.30)       |
| 21. <b>Impact</b> to Beginning Fiscal Year Fund Balance  | -                      | -               | -               | -                 | (160.3)           | (453.4)             | (785.5)             | N/A                 |
| 22. <b>Potential Estimated Cumulative Year-End Fund Balance/(Shortfall)</b>  | <b>\$ 384.9</b>        | <b>\$ 568.7</b> | <b>\$ 471.9</b> | <b>\$ (115.5)</b> | <b>\$ (794.3)</b> | <b>\$ (1,588.8)</b> | <b>\$ (2,468.4)</b> | <b>\$ (2,468.4)</b> |

**SCENARIO III SUMMARY (PLANNED VS. FORECAST SAVINGS)<sup>(a)</sup>**

FISCAL YEARS 2002-03 THROUGH 2008-09

(\$ in millions)

| Line #.<br>Line #. A.                  | Board<br>Decision<br>Date                         | Planned/<br>Imple-<br>mentation<br>Date | Status<br>as of<br>01/11/05 | PLANNED SAVINGS - LINE #. VS.<br>FORECAST SAVINGS - LINE #. A. |             |             |             |                |                |                |                |
|--|---|---|-----------------------------|--|-------------|-------------|-------------|----------------|----------------|----------------|----------------|
|  |   |   |                             | 2002-03  | 2003-04     | 2004-05     | 2005-06     | 2006-07        | 2007-08        | 2008-09        |                |
| <b>HOSPITALS</b>                       |   |   |                             |  |             |             |             |                |                |                |                |
| 1.                                     | Planned reduction of LAC+USC 100 beds             | 10/02                                   | 05/03                       | Court  | \$ 2,000    | \$ 16,100   | \$ 29,800   | \$ 31,900      | \$ 34,100      | \$ 36,500      | \$ 39,100      |
| 1. A.                                  | Forecast savings (e)                              |   |                             | injunction   | (b)         | (b) (c)     | (c)         | (c)            | 34,100         | 36,500         | (n) 39,100     |
| 2.                                     | Planned LAC+USC efficiencies                      | 10/02                                   | 07/05                       |  | -           | -           | -           | 20,100         | 20,700         | 21,300         | 21,900         |
| 2. A.                                  | Forecast savings (e)                              |   |                             |  | -           | -           | -           | 20,100         | 20,700         | 21,300         | 21,900         |
| 3.                                     | Planned 16% efficiencies at MLK/D                 | 06/02                                   | 05/03                       |  | 2,800       | 20,900      | 46,200      | 61,900         | 63,800         | 65,700         | 67,700         |
| 3. A.                                  | Forecast savings (e)                              |   |                             | 07/03  | (b)         | 20,900      | 20,900 (d)  | 33,115 (d)     | 52,671 (d)     | 60,013 (d)     | 60,130 (d)     |
| 4.                                     | Planned closure of RLANRC or alternate governance | 10/02 & 06/03                           | 07/04                       |  | -           | 58,600 (m)  | 64,800      | 70,400         | 77,400         | 85,000         | 93,300         |
| 4. A.                                  | Forecast savings (e)                              |   |                             | Court injunction   | -           | 9,100 (c)   | 10,894 (c)  | 10,894 (c)     | 77,400         | 85,000         | 93,300         |
| 6.                                     | Planned conversion of HDH to a MACC               | 06/02                                   | 05/03                       |  | 1,400       | 9,800       | 11,100      | 12,500         | 14,100         | 16,000         | 18,200         |
| 6. A.                                  | Forecast Saving (e)                               |   |                             | 07/03  | (b)         | 8,631 (b)   | 9,931 (f)   | 11,184         | 12,616         | 14,316         | 16,284         |
| 7.                                     | Planned capital cost avoidance at HDH             | 06/02                                   | 07/02                       |  | 2,000       | 0,900       | -           | -              | -              | -              | -              |
| 7. A.                                  | Forecast savings (e)                              |   |                             |  | (b) (g)     | (b) (g)     | -           | -              | -              | -              | -              |
| 8.                                     | Planned restructure of psych services             | 10/02                                   | 10/02                       | Negotiations ongoing   | 0,200       | 20,200      | 25,300      | 29,200         | 33,600         | 38,600         | 44,300         |
| 8. A.                                  | Forecast savings (e)                              |   |                             |  | 0,250       | 7,721 (h)   | 9,662 (h)   | 15,149 (h) (1) | 15,149 (h) (1) | 15,149 (h) (1) | 15,149 (h) (1) |
| <b>COMPREHENSIVE HEALTH CENTERS</b>    |   |   |                             |  |             |             |             |                |                |                |                |
| 9.                                     | Planned CHC efficiencies                          | 10/02                                   | 05/03                       |  | 3,700       | 23,300      | 24,000      | 24,600         | 25,300         | 26,100         | 26,900         |
| 9. A.                                  | Forecast savings (e)                              |   |                             | 07/03  | (b)         | 9,864 (b)   | 12,207 (f)  | 16,970         | 17,480         | 18,000         | 18,500         |
| <b>HEALTH CENTERS</b>                  |   |   |                             |  |             |             |             |                |                |                |                |
| <u>Northeast Area</u>                  |   |   |                             |  |             |             |             |                |                |                |                |
| 10.                                    | Planned closure of 4 HC's                         | 06/02                                   | 10/02                       |  | 6,300       | 8,900       | 9,300       | 9,700          | 10,100         | 10,500         | 10,900         |
| 10. A.                                 | Forecast savings (e)                              |   |                             | 10/02  | 6,300       | 8,900       | 9,300       | 9,700          | 10,100         | 10,500         | 10,900         |
| <u>Coastal Area</u>                    |   |   |                             |  |             |             |             |                |                |                |                |
| 11.                                    | Planned closure of 1 HC                           | 06/02                                   | 10/02                       |  | 1,000       | 1,400       | 1,400       | 1,500          | 1,600          | 1,700          | 1,800          |
| 11 A.                                  | Forecast savings (e)                              |   |                             | 10/02  | 1,000       | 1,400       | 1,400       | 1,500          | 1,600          | 1,700          | 1,800          |
| <u>Southwest Area</u>                  |   |   |                             |  |             |             |             |                |                |                |                |
| 12.                                    | Planned closure of 4 HC's                         | 06/02                                   | 10/02                       |  | 12,700      | 18,100      | 18,700      | 19,400         | 20,200         | 21,000         | 21,800         |
| 12. A.                                 | Forecast savings (e)                              |   |                             | 10/02  | 7,400       | 12,995 (b)  | 13,020 (f)  | 13,500         | 14,060         | 14,620         | 15,200         |
| <u>San Fernando Valley Area</u>        |   |   |                             |  |             |             |             |                |                |                |                |
| 13.                                    | Planned closure of 2 HC's                         | 06/02                                   | 10/02                       |  | 3,200       | 4,500       | 4,700       | 4,800          | 4,900          | 5,000          | 5,100          |
| 13. A.                                 | Forecast savings (e)                              |   |                             | 10/02  | 3,200       | 4,500       | 4,700       | 4,800          | 4,900          | 5,000          | 5,100          |
| <u>Antelope Valley Area</u>            |   |   |                             |  |             |             |             |                |                |                |                |
| 14.                                    | Planned 5% efficiency from AV/DHS Partnership     | 06/02                                   | 10/02                       |  | 0,030       | 0,200       | 0,200       | 0,200          | 0,200          | 0,200          | 0,200          |
| 14. A.                                 | Forecast savings (e)                              |   |                             | 10/02  | 0,030       | 0,200       | 0,200       | 0,200          | 0,200          | 0,200          | 0,200          |
| <b>OTHER</b>                           |   |   |                             |  |             |             |             |                |                |                |                |
| 16.                                    | Planned PPP visit reductions                      | 06/02                                   | 09/02                       |  | 12,500      | 15,000      | 15,000      | 15,000         | 15,000         | 15,000         | 15,000         |
| 16. A.                                 | Forecast savings (e)                              |   |                             | 09/02  | 12,500      | 15,000      | 15,000      | 15,000         | 15,000         | 15,000         | 15,000         |
| 20.                                    | Planned Public Health reductions                  | 06/02                                   | 10/02                       |  | 6,700       | 9,200       | 9,400       | 9,700          | 10,000         | 10,300         | 10,600         |
| 20. A.                                 | Forecast savings (e)                              |   |                             | 07/02  | 7,500       | 7,730 (b)   | 7,960 (f)   | 8,200          | 8,450          | 8,700          | 9,000          |
| 21.                                    | Planned contract out of OMC Admin                 | 06/02                                   | 05/03                       |  | 2,300       | 8,000       | 8,000       | 8,000          | 8,000          | 8,000          | 8,000          |
| 21. A.                                 | Forecast savings (e)                              |   |                             |  | 2,300 (i)   | (b)         | -           | -              | -              | -              | -              |
| 22.                                    | Planned cost/revenue adjustments (j)              | 10/02                                   | 07/03                       | 07/03  | -           | 25,700      | 41,600      | 38,600         | 38,600         | 38,600         | 38,600         |
| SCENARIO III PLANNED SAVINGS TOTAL (k) |   |   |                             |  | \$ 56,830   | \$ 240,800  | \$ 309,500  | \$ 357,500     | \$ 377,600     | \$ 399,500     | \$ 423,400     |
| LESS: FORECAST SAVINGS AS OF 12/30/04  |   |   |                             |  | 40,480 (l)  | 132,641     | 156,774     | 198,912        | 323,026        | 344,598        | 360,163        |
| SAVINGS SURPLUS / (SHORTFALL)          |   |   |                             |  | \$ (16,350) | \$(108,159) | \$(152,726) | \$(158,588)    | \$ (54,574)    | \$ (54,902)    | \$ (63,237)    |
| LESS: COURT ORDERED ENJOINED SAVINGS   |   |   |                             |  | -           | 65,60       | 83,71       | -              | -              | -              | -              |
| ADJUSTED SAVINGS SURPLUS / (SHORTFALL) |   |   |                             |  | \$ (16,350) | \$ (42,559) | \$ (69,020) | \$(158,588)    | \$ (54,574)    | \$ (54,902)    | \$ (63,237)    |

**Note: Shaded items are revisions from the last Fiscal Outlook Update of 11/4/04. (Please refer to changes listed on Page 2)***The attached footnotes are an integral part of the Scenario III Summary Report.*



**SCENARIO III SUMMARY (PLANNED VS. FORECAST SAVINGS)<sup>(a)</sup>**

FISCAL YEARS 2002-03 THROUGH 2008-09

(\$ in millions)

**Notes:**

- (a) From projected budgets compared with FY 01-02 service level for each year.
- (b) The savings projections originally projected in FY 02-03 have been covered by the surplus from DHS' FY 02-03 operations. DHS' FY 02-03 final surplus was \$263.9 million. The savings projections originally projected in FY 03-04 have been covered by the surplus from DHS' FY 03-04 operations.
- (c) Pending outcome of the litigation (RLA - Rodde Case Scheduled Court Date 2/22/2005) and (LAC+USC/RLA - Harris Case Scheduled Court Date 4/26/2005). This estimate will be updated when more information is available. \$9.1 million for Rancho represents the difference between \$58.6 million accelerated Rancho closure savings and \$49.5 million 191 bed FY 03-04 variable net operating cost. In FY 04-05, \$10.894 million reflects the cumulative savings with an additional \$1.794 million S&S savings in the FY 04-05 DHS Supplemental Budget Request due to reductions in contracts that will not
- (d) Reflects a savings delay. Cuts that were to be taken on 7/1/04 will be delayed to 1/1/06; Cuts that were to be taken on 7/1/05 will be delayed to 1/1/07.
- (e) Revised savings as of January 11, 2005.
- (f) The revised savings amounts for FY 04-05 and forward are calculated based on the ratios between the original savings and the revised savings for FY 03-04.
- (g) The CAO has suggested that DHS utilize the savings from the DHS funded projects in order to meet the targeted savings as outlined in the Proposed Savings Plan for HDH Capital Cost Avoidance. According to the CAO, the savings from the HDH Capital Cost Avoidance is not a savings to DHS.
- (h) DHS revised the FY 03-04 savings for psych services restructuring from \$20.2 million to \$16.5 million in savings for psych services restructuring. However, the CAO Supplemental Budget Resolution includes a savings of \$6.3 million (original psych services net cost of \$20.2 million less a reduction in net cost of \$10.5 million and adjusted for an error at K/DMC of \$4.3 million). Negotiations are still ongoing regarding the restructure, however, it appears there will be no additional savings beyond the \$6.3 million included in the CAO Supplemental Budget for FY 03-04. The FY 04-05 savings is based on the FY 04-05 DHS Supplemental Budget savings of \$9.7 million. FY's 05-06 through 08-09 reflect an additional \$5.5 million in revenue from DMH based on the agreement to transfer the FY 05-06 DMH Vehicle License Fee growth to DHS.
- (i) OMC met the \$2.3 million target through existing one time FY 02-03 operational savings, even though the contracting out to LA Care has not happened.
- (j) Cost/revenue adjustments refer to revenues generated by facilities to be closed, which can still be collected by Health Services and distributed across the system.
- (k) Excludes one-time expenses such as costs associated with layoffs, facility closure costs, and facility transition costs. Health Services has not yet completely identified or quantified these costs but proposes that they could be partially paid for with Tobacco Settlement funds.
- (l) The revised Scenario III total excludes those items that were covered by surplus/savings from DHS' FY 02-03 operations.
- (m) Although not originally in Scenario III of the June 2002 DHS Strategic Plan, the Board approved a one-year acceleration of the Rancho savings on 06/23/03.
- (n) Does not take into account the opening of the LAC+USC replacement facility on July 2007.

**Changes made to shaded items are revisions from the last Fiscal Outlook Update of 11/4/04 as follows:**

- (1) Line 8.A - FY's 05-06 through 08-09 updated to reflect an additional \$5.5 million in revenue from DMH based on the agreement to transfer the FY 05-06 DMH Vehicle License Fee growth to DHS.